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ABSTRACT

This report examines the U.S. Department of Education's Federal Family Education Loan Program (FFELP) and Federal Pell Grant Program (FPGP), focusing on the extent to which the Department's student aid data are effectively used to help ensure compliance with federal requirements and prevent any abuses from recurring and the improvements that the Department has planned or made to its student aid systems. Data indicate that 43,519 ineligible students may have received 58,105 loans, totaling over $138 million, for fiscal years 1982 through 1992, and that more than 48,000 students may have received overpayments of their Pell grants for award years 1989 through 1993. The report describes some of the improvements put into place by the Department, such as the National Student Loan Data System, to help correct these abuses, as well areas needing further improvement to help prevent fraud and abuse. Six appendixes provide information on the scope and methodology of the study, the process for applying for federal student financial aid, guaranty agencies that guaranteed loans to ineligible students, comments from the Department of Education, General Accounting Office (GAO) contacts, and staff acknowledgements. A list of 11 related GAO publications is included. (MDM)

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United States General Accounting Office

GAO

Report to the Ranking Minority Member, Permanent Subcommittee on Investigations, Committee on Governmental Affairs, U.S. Senate

July 1995

STUDENT FINANCIAL AID

Data Not Fully Utilized to Identify Inappropriately Awarded Loans and Grants

ED 386 097

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United States
General Accounting Office
Washington, D.C. 20548

Health, Education, and
Human Services Division

B-261101

July 11, 1995

The Honorable Sam Nunn
Ranking Minority Member
Permanent Subcommittee on Investigations
Committee on Governmental Affairs
United States Senate

Dear Senator Nunn:

The Department of Education provides loans and grants to students to help finance their postsecondary education. Total student financial aid funded during academic year 1993-94 was $29 billion. During this period, the Department reported that the largest source of this aid (72 percent) was the Federal Family Education Loan Program (FFELP),[1] which provided over $21 billion in loans to 6.5 million students. The second largest source was the Federal Pell Grant Program, which provided $5.6 billion in grants to 3.7 million students.

During fiscal years 1983 through 1991, annual federal costs for FFELP loan defaults increased over 700 percent, ranging from $445 million to $3.6 billion as reported by the Department. But in the past 2 years loan defaults have decreased. Nevertheless, according to Department records the federal government paid out over $2.4 billion in fiscal year 1994 to make good its guarantee on defaulted student loans. In 1993, we testified on abuses in the Pell Grant Program.[2] Specifically, we reported on the use of false documents to support both schools' eligibility and students' applications to participate in the Pell Grant Program. These schools submitted documentation to the Department for (1) students who never applied for grants, (2) individuals who never enrolled in or attended the schools, and (3) students who were ineligible. Some schools also misrepresented their academic programs and other eligibility criteria.

In response to your request, our report focuses on underlying problems with the Department's use of its FFELP and Pell Grant Program data to promptly identify ineligible students. Specifically, you requested that we (1) determine the extent to which the Department effectively used data on student aid to ensure compliance with federal requirements and prevent the recurrence of defaults and abuse and (2) assess the improvements that

[1]FFELP was formerly called the Guaranteed and Stafford Student Loan Programs.

[2]Student Financial Aid Programs: Pell Grant Program Abuse (GAO/T-OSI-94-8, Oct. 27, 1993).

the Department plans or has made in its systems for identifying abuse in its loan and grant programs.

The Department relies on schools to help ensure that students are eligible for financial aid. It also relies on data provided by schools to ensure compliance with federal requirements. To identify instances in which Department systems were ineffectively used, such as preventing ineligible students from receiving financial aid, we analyzed data provided to the Department by schools, lenders, and guaranty agencies. The data we analyzed are maintained in the Department's student loan and grant systems. Although the Department has had long-standing problems with how timely and accurate its student loan data are, they were the only relevant data available. We did not verify the data in our analyses nor confirm that aid was actually provided to students that Department data showed to be ineligible. But we did discuss our analyses with Department staff. See appendix I for more details on our scope and methodology.

Results in Brief

Although continuing to be faced with billions of dollars in annual payments for defaulted student loans, the Department has, in general, ineffectively used available student aid data to enforce compliance with federal requirements.

For example, in fiscal years 1982 through 1992, Department data indicate that 43,519 ineligible students apparently received 58,105 loans, totaling over $138 million. Other data indicate that students may have received loans in excess of their cost of attendance (COA).[3] During the same period, more students could have received loans in excess of their COA because about 8.6 million loan records in the FFELP database had no data entered for COA.

Further, the Department has not effectively used other data that could identify students who received (1) grants while attending two or more schools concurrently or (2) additional financial aid despite being ineligible because they had defaulted on previous loans.

For award years 1989 to 1993,[4] Pell Grant Program data showed that more than 48,000 students may have received Pell grant overpayments and over

[3]COA includes tuition, books, fees, supplies, and other living expenses and is estimated by the school, within federal guidelines.

[4]The award year begins on July 1 of 1 year and extends to June 30 of the next year. Funding for the Pell Grant Program is provided on the basis of the award year.

35,000 students may have inappropriately received grants while attending two or more schools concurrently, which is prohibited under the program. According to data in both the loan and grant systems, more than 101,000 students who had loans and subsequently became ineligible for additional aid may have received 139,123 Pell grants totaling approximately $200 million.

We found instances in which oversight responsibilities were divided and data were ineffectively shared by units in the Office of Postsecondary Education (OPE). In early 1995, these weaknesses were addressed when the Department made improvements to its organizational structure that were intended to address our concerns. While these improvements are a move in the right direction, it is too early for us to determine their effectiveness.

The Department has also initiated a series of improvements to its student loan and grant systems. These include developing new systems, implementing data controls in its existing systems, and strengthening program reviews at schools. While the system improvements are also steps in the right direction, we believe that it is too early to determine the effectiveness of these new systems, such as the National Student Loan Data System (NSLDS)—a national database on student loans and Pell grants—because it is not fully operational. We also believe that the system controls in place to prevent those students who had previously defaulted on loans from obtaining additional aid are not sufficiently aimed at prevention.

Background

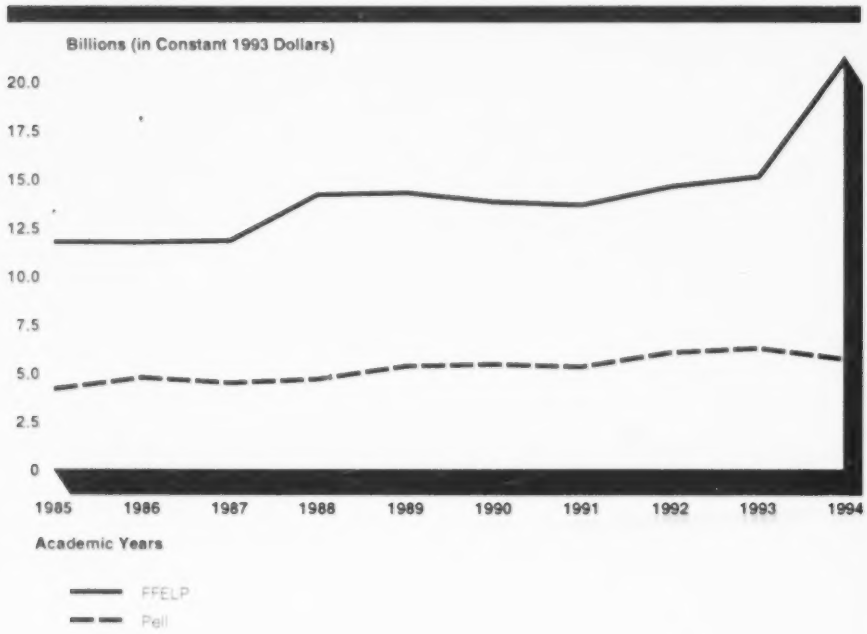
The Department of Education administers student financial aid programs under title IV of the Higher Education Act of 1965, as amended (HEA). Through these programs, students have access to billions of dollars for postsecondary education each year.

The two major financial aid programs are FFELP and the Pell Grant Program.[5] FFELP is the largest program, providing student loans that are guaranteed by state guaranty agencies and insured by the government. The Pell Grant Program is the second largest student financial aid program. For each of these programs, the Department keeps data in separate

[5]The other student aid programs are the Federal Campus-Based Programs and the Federal Direct Student Loan Program (FDSLP). The campus-based programs are (1) the Federal Work-Study Program, (2) the Federal Perkins Loan Program, and (3) the Federal Supplemental Educational Opportunity Grant Program.

systems. See figure 1 for trends in FFELP and the Pell Grant Program over the last 10 years.

Figure 1: FFELP and Pell Grant Program Aid Awarded to Postsecondary Students for Selected Years



Student's Process for Applying for Federal Student Financial Aid

A student's financial aid process begins with an application for aid. The Free Application for Federal Student Aid (FAFSA) or the Renewal FAFSA[6] is the single application used to establish eligibility for the Pell Grant Program and FFELP. In completing FAFSA, the student certifies that he or she is not in default on a student loan or has not received a student aid overpayment.

During the student aid application process, the Department's Central Processing System (CPS)[7] performs data matches to determine whether the student defaulted on a loan or received an overpayment in the Pell Grant Program or FFELP. If the student defaulted on a loan or received a grant or loan overpayment, CPS will print a comment about the possible

[6]A Renewal FAFSA allows students to update or correct their previous year's application data instead of completing entirely new applications.

[7]CPS is the Department's processing facility for student aid applications.

discrepancy on the student's student aid report (SAR).[8] The student is then responsible for resolving the matter with either the school, lender, guaranty agency, or the Department.

Schools are responsible for ensuring that students are eligible for financial aid programs. Once the schools make this determination, funds are disbursed to the student according to program requirements. Specifically, for FFELP, the school is responsible for certifying the loan and ensuring that the student is eligible to receive it. See appendix II for more details on the process for applying for federal student aid.

Federal Family Education Loan Program

Most FFELP loans are based on financial need. Typically, a student applies for a loan, then the school verifies the student's eligibility and determines, based on family income and estimated COA, the amount of aid the student is eligible to receive. The student receives the loan from a participating lender. One of the state-designated guaranty agencies guarantees the loan against default. The guaranty agency is the intermediary between the Department and the lender, insuring the loan made by the lender to the student and making certain that the lenders and schools meet program requirements. The Department pays the interest due while the student is in school. The student begins repaying the loan, including interest and principal, within 6 months after leaving school. The Department also reimburses guaranty agencies for most of the defaulted loans they paid to lenders and for some of their administrative costs.

Structure Is Complex

The structure of FFELP has created the potential for significant abuse, given the limited financial risks for the participants in the program—schools, lenders, and guaranty agencies—as well as the unreliable student aid data, as we reported in February 1995.[9] In addition, as we reported in our financial audit of FFELP for fiscal years 1992 and 1993,[10] we were unable to provide an opinion on whether FFELP's September 30, 1993, Statements of (1) Financial Position, (2) Operations and Changes in Net Position, and (3) Budgetary Resources and Actual Expenses were fairly stated. This is because of unreliable loan data, which are generally provided by guaranty

[8]SAR is the federal output document, which is used to document the family's financial and other information as reported by the student on FAFSA. A SAR also contains the information needed by the school to determine the student's eligibility.

[9]High-Risk Series: Student Financial Aid (GAO/HR-95-10, Feb. 1995).

[10]Financial Audit: Federal Family Education Loan Program's Financial Statements for Fiscal Years 1993 and 1992 (GAO/AIMD-94-131, June 30, 1994).

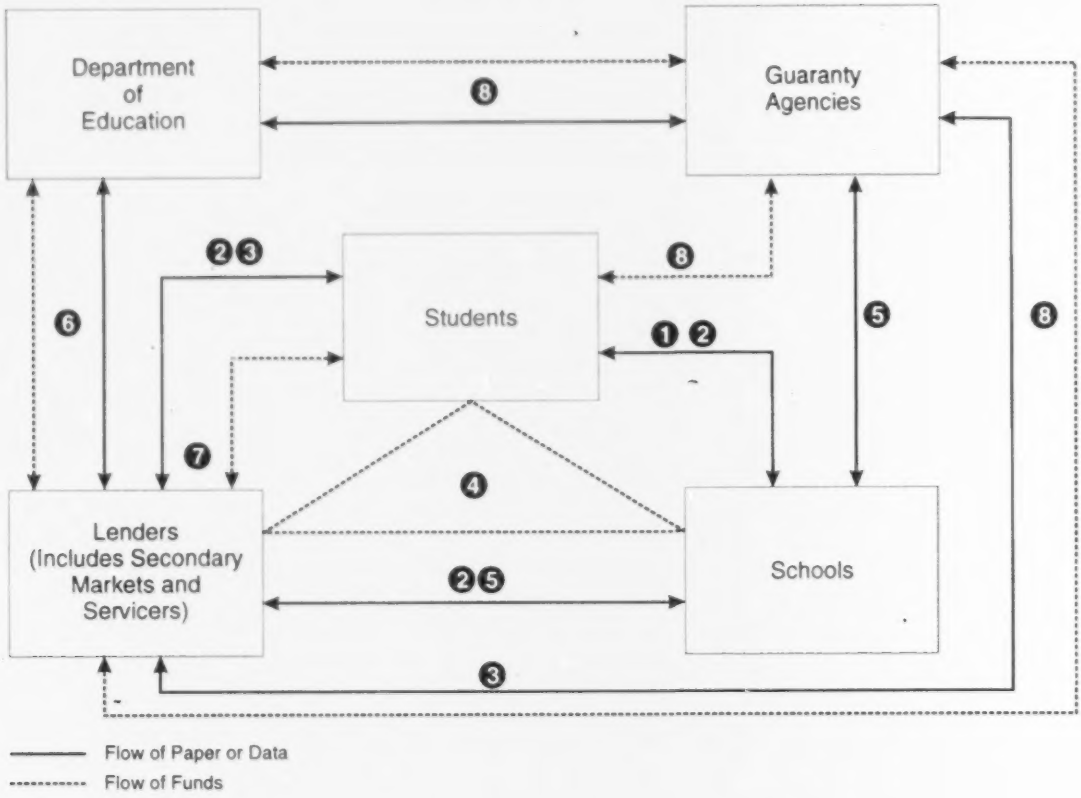
agencies. We were, however, able to determine that the Statement of Cash Flows presents fairly the cash flows of FFELP.

The Department has inadequate oversight of guaranty agencies and lenders, and guaranty agencies have made little effort to verify the accuracy of FFELP information before submitting it to the Department, as we reported in 1993.[11] At that time, the Department faced many challenges in correcting student loan data that it received from guaranty agencies. We recommended that the Department require guaranty agencies to correct these data. The Department undertook a number of measures to try to improve the quality of the data obtained from guaranty agencies, and we discuss them on page 18.

FFELP functions through a complicated and cumbersome set of rules and requirements involving millions of students and thousands of schools, as well as lenders and other entities. The maze of responsibilities shared by the participants is shown in figure 2.

[11]Financial Audit: Guaranteed Student Loan Program's Internal Controls and Structure Need Improvement (GAO/AFMD-93-20, Mar. 16, 1993).

Figure 2: Federal Family Education Loan Program: A Complicated and Cumbersome Process



1. Student provides school with financial information and school determines loan eligibility and counsels student.
2. Student generally obtains loan application from lender, fills out his or her portion, and forwards it to school; school completes application and forwards it to lender.
3. Lender provides information to guaranty agency; verifies student eligibility and agrees to guarantee loan; lender sends promissory note to student; returns signed note to lender.
4. Lender issues check to be endorsed by both school and student.
5. School periodically confirms borrower's continued student status.
6. Lender bills the Department of Education for interest subsidy, reports loan origination fees collected, and provides summary information on its guaranteed loan portfolio.
7. Lender bills student when repayment starts, collects payments, and conducts statutory loan collection services if borrower becomes delinquent or in default.
8. Guaranty agency reimburses lender for defaulted loans and receives reinsurance and an administrative costs allowance from the Department. The agency also receives an insurance premium from students. The agency pays the Department a loan reinsurance fee, shares collections on defaulted loans, and provides the Department with summary information of loans it guaranteed.

Federal Pell Grant Program

Pell grants, in accordance with federal requirements, are distinguished from other financial aid in that students meeting eligibility criteria are granted—not loaned—money. The Pell grant amount is determined, in part, by the student's financial need and COA. The Department, through a student's school, gives Pell grants to eligible students. The school, however, must ensure that each (1) student meets federal eligibility requirements for the grant and (2) eligible student is paid the full Pell grant that he or she is eligible to receive. During award years 1984 through 1994, Pell grants were awarded to about 32 million students, totaling over $50 billion.

While not as complex to administer as FFELP, the Pell Grant Program has experienced abuse. For example, we testified in 1993 on certain schools' use of false documents to support both students' Pell grant applications and the schools' eligibility to participate in the program.[12] These schools submitted documentation to the Department for (1) students who never applied for grants, (2) individuals who never enrolled in or attended the schools, and (3) students who were ineligible. Some schools also misrepresented their academic programs and other eligibility criteria.

Systems Used to Monitor FFELP and the Pell Grant Program

To ensure that students are eligible for financial aid, the Department relies on data provided by program participants—schools, lenders, and guaranty agencies. For FFELP and the Pell Grant Program, the Department maintains data in separate, stand-alone program systems.

As part of its monitoring of FFELP, the Department annually collected loan data from guaranty agencies and consolidated them in the FFELP database.[13] The FFELP data, which were the principal data available for the Department to monitor FFELP, were used to, among other things, (1) calculate annual student loan default rates for schools participating in FFELP; (2) assist in conducting program reviews of schools, lenders, and guaranty agencies; and (3) identify possible loan limit violations and ineligible borrowers. These uses, however, were conducted after loans were awarded, as long as a year afterward, in some cases. This timeliness issue, however, is not expected to exist when NSLDS is properly implemented and fully operational. NSLDS will provide on-line access to student loan data, which will be updated monthly, as opposed to the annual updates in the FFELP database.

[12]GAO/T-OSI-94-8, Oct. 27, 1993.

[13]As of November 1994, NSLDS replaced the FFELP database and the data in the FFELP database were used to populate NSLDS.

As part of its monitoring of the Pell Grant Program, the Department collects student information from schools and consolidates it through the Pell Grant Recipient and Financial Management System (PGRFMS). This system is used to (1) track a school's need for funds as the award year progresses and adjust the school's authorization on that basis and (2) provide documentation to the school to reconcile the school's total expenditures at the end of the year with the records of the eligible students who were paid by the school. Starting in the fall of 1995, NSLDS will also contain Pell grant data that will be updated weekly. For more information on the Department's student financial aid systems, see appendix III.

Some Department Data Problems Continue

Using the Department's data, we found that ineligible students received millions of dollars in aid and other students received more aid than permitted under the law. Students are generally ineligible for additional aid after defaulting on an earlier loan and are prohibited from receiving funds in excess of the statutory limit or COA. Further, students are prohibited from receiving Pell grants concurrently from two or more schools. We realize that our findings represent a small percentage of the total number of loans and grants in PGRFMS and the FFELP database; however, our findings typify inaccurate and erroneous payments that may have been made to students, some of whom were ineligible for any federal student aid.

Before providing financial aid, a school is required to ensure that a student has not received an overpayment or previously defaulted on a loan. In order to make this determination, the Department relies on a requirement that schools, before approving a student's aid application, obtain a financial aid transcript from each school the applying student was previously enrolled in.[14]

Ineligible Students May Have Obtained Aid and Defaulted on Subsequent Loans

We identified 43,519 students that the Department's data showed may have been ineligible for 58,105 loans, yet received over $138 million in loans. To identify these students, we used student loan data in the Department's FFELP database for fiscal years 1982 through 1993. For example, one student who obtained a loan defaulted on it in May 1992. This default

[14]The financial aid transcript, a form needed to monitor students' eligibility for aid, includes information such as (1) the student's name and social security number, (2) whether the student is in default on a loan or owes a repayment on a grant at that school, and (3) the total amount on any loans received by the student. The transcript also tells the school how much aid a transfer student has received from student aid programs at other schools.

made the student ineligible for subsequent loans. According to Department data, however, this student received five additional loans: one in February 1993; two in July 1993; and two in September 1993. Another student obtained a loan and defaulted on it in September 1986. This default made the student ineligible; however, according to Department data, this student received five additional loans: one in 1988; three in 1989; and one in 1990—4 years after defaulting on the first loan.

Further, according to the Department's data, as of September 30, 1992, of the 43,519 students who were ineligible for additional loans, 20,210 students defaulted on 23,298 subsequent loans. The amount outstanding on the subsequent loans (which included interest and principal) was over $56 million. A list of the guaranty agencies that guaranteed these loans is in appendix IV.

Through our analyses of both FFELP and PGRFMS data, we identified 101,327 students who previously defaulted on a student loan and were, therefore, ineligible for federal student aid. Nevertheless, the data showed that they may have received 139,123 Pell grants, totaling approximately $200 million. Of these ineligible students, 73,934 received one grant; 19,838 received two grants; and over 7,555 received three or more grants.

Students May Have Received Loans Greater Than Their Cost of Attendance

The Department's FFELP database showed that students received loans that exceeded their COA. Specifically, according to data in the FFELP database, since 1982, 2,111 students received loans for more than their COA. The average amount of the overpayment was $1,200 and ranged from less than $100 to over $13,000; the overpayments totaled $2.4 million.

The Department's system used for tracking student loans—the FFELP database—was not used to ensure that students receive financial aid equal to or less than their COA, even though a COA data field is available for use. Financial need and COA are determined at the beginning of the student aid application process, a Department official said; therefore, the Department relies on the schools to ensure compliance with the federal requirement. When guaranty agencies submitted COA data, they did so after students received aid. We also found that for the 1982 through 1992 period, out of approximately 32 million loan records, about 8.6 million in the FFELP database showed no data for COA. According to a Department official, submitting COA information was not mandatory.

To identify cases in which aid awarded exceeded COA, the Department could collect and use COA data to stop these practices and collect funds that were inappropriately awarded. COA data are currently used by schools to determine the amount of aid a student is eligible for, and we found that some schools are reporting these data. Therefore, collecting and reporting these data to the Department should not be a major burden for schools.

Students May Have Concurrently Received Pell Grants From Two or More Schools

According to the Department's records, between award years 1989 and 1993, over 35,000 students may have received Pell grants while attending two or more schools for the same enrollment period (see table 1). We recognize that the number of erroneous awards make up a relatively small portion of over 18 million grants made during this period, but these students may have concurrently received grants from two or more schools.

Table 1: Students Reported by Two or More Schools With Concurrent Enrollment Dates

Award year	Number of students	Number of grants
1993	7,305	4,100,000
1992	7,507	3,900,000
1991	6,670	3,500,000
1990	7,012	3,400,000
1989	6,739	3,300,000

Note: Determined from Department of Education PGRFMS data as of April 1994

According to the PGRFMS data, these students attended two or more schools and received Pell grants for their enrollment in these schools during the same month and year. Pell grant awards to students attending two or more schools may result from either concurrent or sequential attendance, Department officials said. Since the inception of the program in 1973, students have been limited to receiving Pell grants from only one school, even if they concurrently attended multiple schools. Schools are responsible for identifying students who are concurrently attending other schools.

The Department, through PGRFMS, has data available to identify students who may have received grants while concurrently attending two or more schools. But the Department is not using PGRFMS for identification because the data may be misleading. The Department cannot say how many students in our analyses or in PGRFMS actually received Pell grants concurrently from two or more schools, Department officials said,

because PGRFMS records enrollment dates, not disbursement dates. The officials gave the following example: A student attended school A and school B concurrently during an award year. The student applied for financial aid at the beginning of the year and is awarded a Pell grant. The student received a portion of the grant from school A during the fall semester, while also attending school B. But the student did not receive any of the grant from school B. During the spring semester, however, the reverse occurred—the student received the remaining portion of the Pell grant from school B, while also attending school A. But the student did not receive any of the grant from school A.

We used the PGRFMS data field for student's enrollment date to identify students who may have received grants while concurrently attending two or more schools. In this field, we found a student received a Pell grant at both school A and school B in the fall semester because the student enrolled in both schools in the fall semester. But the student could have received his or her grant at different times from the two schools.

Students May Have Received Pell Grants in Excess of Statutory Limits

The Department has a control in place to prevent Pell grant payments over the statutory limit for students attending a single school. Using PGRFMS data, for award years 1989 through 1993, we found no instance of such a student receiving a Pell grant greater than the statutory limit. However, the data showed that 48,010 students attending two or more schools received Pell grants in excess of statutory limits (see table 2). For example, in 1993, one student received grant funds totaling $5,640. The statutory limit in award year 1993 was $2,400; therefore, the student received $3,240 over the limit.

Table 2: Students Who Potentially Received Pell Grant Awards in Excess of Statutory Limits

Award year	Number of students	Amount in excess of limits	Number of grants
1993	9,922	$8,889,744	4,100,000
1992	9,061	7,928,645	3,900,000
1991	8,853	7,363,575	3,500,000
1990	9,535	8,566,068	3,400,000
1989	10,639	9,574,116	3,300,000

Note: Determined from Department of Education PGRFMS data as of April 1994.

For award years 1994 and 1995, the Department implemented a system check in PGRFMS to identify students receiving more Pell grant funds than

are allowed by law. If an overpayment is identified, the student should not be able to obtain another Pell grant until the overpayment is resolved. Because this system check was recently developed, it is too soon for us to determine what effects it will have on the Department's Pell Grant Program. (See page 21 for more information on this system's enhancements.)

Department officials said that Department experience has shown that these apparent overpayments generally occur because of school delays in reporting award adjustments. Due to system limitations in prior years, they said that some adjustments after the close of an award year were posted as a lump sum to school accounts, rather than to student-level records.[15] Thus, for either the Department or us to determine whether an actual overpayment occurred, the data would have to be verified for each student.

Student Financial Aid Oversight and Accountability Were Ineffective

We found instances in which oversight responsibilities were divided and data were ineffectively shared between units in OPE. In April 1991, the Department and the Office of Management and Budget (OMB) jointly reported on the results of their review of how the Department administered student financial aid programs.[16] They found that OPE's organizational structure was fragmented, complicating communication and decision-making, dividing responsibility for compliance, and making the coherent and effective use of resources and processes impossible. In addition, OPE's systems and controls were unreliable.

The report recommended that the Department reorganize OPE along functional lines; evaluate the data needed to manage and plan the implementation of FFELP; and provide better systems for accountability, management control, and decision-making. The Department subsequently reorganized OPE in 1992 and developed a series of initiatives to better oversee FFELP. For example, all of OPE's offices with monitoring and gatekeeping responsibilities, which had been scattered among various OPE units, were consolidated.[17] Placing all these functions in one unit was

[15]In commenting on a draft of this report, the Department stated that it modified system edits, starting with the 1993-94 award year, to record all adjustments at the student level.

[16]Administration Adopts Plan to Reorganize Student Financial Assistance Programs, U.S. Department of Education and the Office of Management and Budget. Washington, D.C.: 1991.

[17]Gatekeeping generally refers to the Department's procedures for determining which schools can participate—and whether they should continue participating—in federal student aid programs.

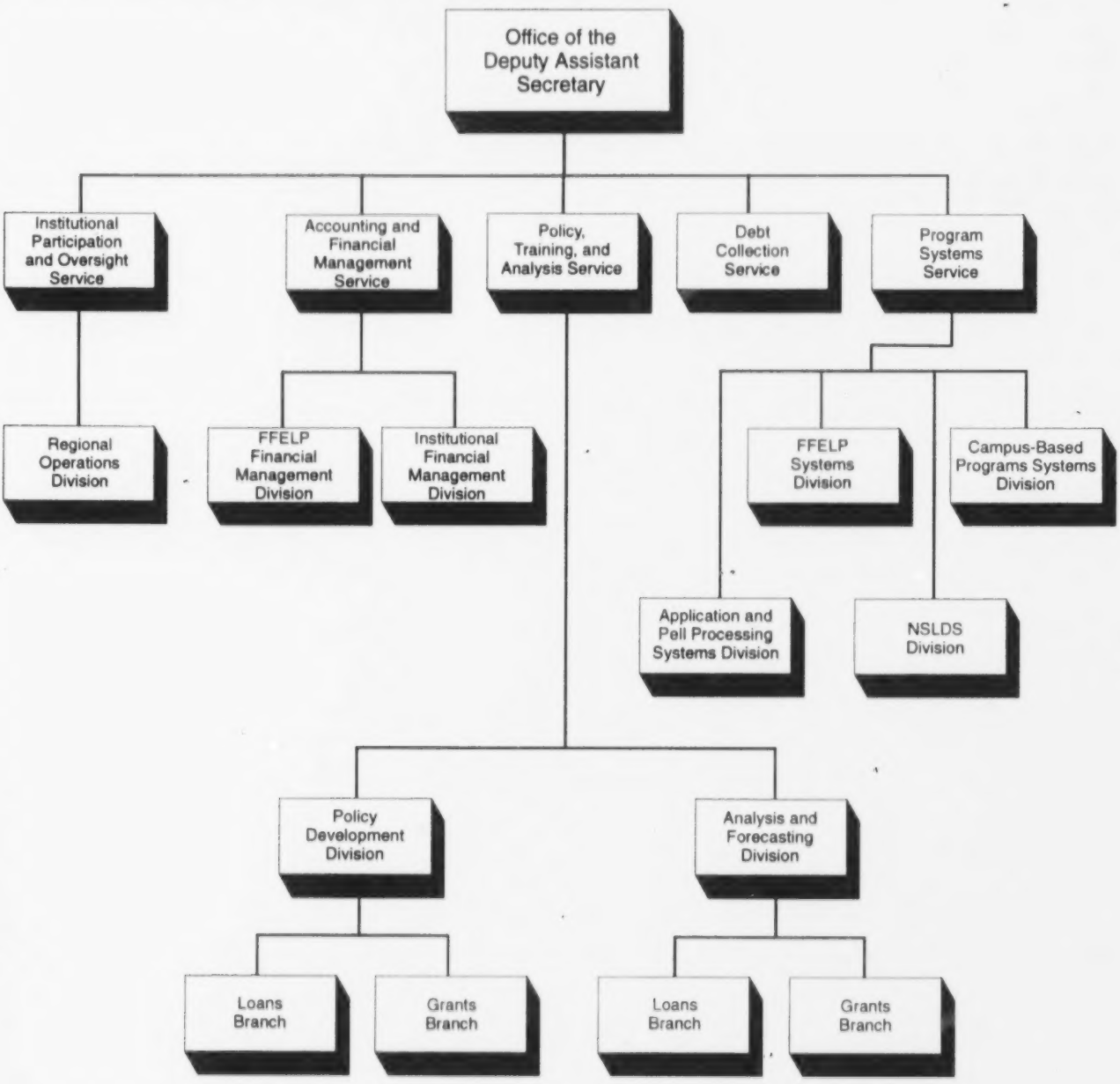
intended to provide better coordination and permit more effective program management.

OPE's Institutional Participation and Oversight Service (IPOS), the unit responsible for monitoring schools and ensuring their eligibility to participate in the programs, conducts on-site reviews at schools to ensure they are meeting program requirements. These reviews, however, are principally used to (1) identify violations and abuse after they occur and (2) target and conduct subsequent reviews.

Even though the Department has completed initiatives and has others under way that address most of the recommendations in the joint OMB and Department report, we continued to find instances of lax accountability in which compliance responsibilities were divided among OPE units. For example, at the time of our review, there was no OPE unit responsible for overseeing all aspects of the Pell Grant Program. Responsibilities for policy, accounting and financial management, as well as for program systems, for example, were divided among three OPE units that did not routinely share information with each other. OPE had, for example, an office for functions of each student aid program's systems and other offices for functions of each program's accounting and financial management. According to a Department official, the office for Pell grant systems had difficulty obtaining information from the office responsible for the financial functions of the Pell Grant Program.

In early 1995, however, OPE reassigned personnel and made organizational improvements that address our concerns about the dispersion of responsibilities among units. For example, in January 1995, OPE consolidated the Pell Grant and Applicants Systems Divisions into the Application and Pell Processing Systems Division; in April 1995, it consolidated the Pell Grant and Campus-Based Financial Management Divisions into the Institutional Financial Management Division. Although we did not have the time to evaluate these changes, they appear to provide a better organizational framework for program oversight and accountability. The organizational structure for OPE's student financial aid programs as of April 1995 is shown in figure 3.

Figure 3: Organization of the Office of Postsecondary Education



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Department Improvements Under Way

During the past 2 years, the Department implemented a number of initiatives to address problems in its student financial aid systems. We found that the Department has managed to improve its (1) student aid systems, including developing new systems, such as NSLDS, and implementing changes to existing systems and (2) gatekeeping program, by expanding the criteria for scheduling institutional program reviews.

These improvements have addressed many problems in Department systems and controls. The Department must also continue to make improvements to help ensure compliance with federal requirements and to resolve problems such as those the Department's data identified.

Developing NSLDS

The Department developed NSLDS to be the first national source of current loan and grant data on student financial aid participants. In part, the development of NSLDS was a result of numerous ongoing problems in FFELP. The system, which includes 14 functions, has been planned for design and implementation through three phases.

NSLDS will provide the Department (1) on-line access to loan data on a loan-by-loan basis and (2) more detailed current information on each student with an FFELP loan. When fully implemented, NSLDS is expected to provide an integrated view of the student financial aid programs. NSLDS will include aid approval, disbursements, repayments, delinquencies, and closures, and help ensure that improved and accurate information is available on student loan indebtedness. The Department should be better able to manage FFELP, for example, by ensuring that students who have previously defaulted are not receiving new loans. NSLDS will be updated monthly.

NSLDS functions and capabilities consist of:

1. Pre-screen for student financial aid eligibility
2. Calculate default rates
3. Monitor guaranty agency and lender billings for reasonability
4. Support research studies and policy development
5. Budget analysis and development
6. Audit and program review planning
7. Assessment of FFELP administration by guaranty agencies, schools, and lenders
8. Refund/cancellation support
9. Borrower tracking

10. Pre-claims assistance/supplemental pre-claims assistance
11. Loan transfer tracking
12. Student status confirmation report
13. Financial aid transcript
14. Credit reform act support

Phase I: NSLDS Basic System Operations

Phase I of NSLDS began in 1993, and implemented functions 1 through 7. According to Department officials, Phase I implementation—which included populating NSLDS with data submitted by guaranty agencies—became operational in November 1994. As a result, guaranty agencies' submissions of FFELP data tapes to the FFELP database ceased. In addition, the FFELP database, which was used for our analyses, is no longer updated. Some of the information in it will be included in NSLDS—which will be updated with monthly data submitted by guaranty agencies.

According to Department officials, schools have begun using function 1, pre-screening for student financial aid eligibility. Schools are able to electronically receive data about an applicant's prior student financial aid. Schools can then use this information to determine (1) the eligibility of students applying for aid and (2) whether they defaulted on an existing loan or exceeded the maximum amount of aid allowed.

Phases II and III: NSLDS Future Enhancements

Phases II and III of NSLDS are expected to be started by the summer of 1995. Functions 8 through 12 are scheduled for implementation in Phase II, and functions 13 and 14 are scheduled for implementation in Phase III. According to a Department official, selected Pell grant data will be entered into NSLDS during Phase II. The Pell grant data entered will come from PGRFMS.

Concerns About the Data Entered Into NSLDS

In our March 1993 report, we expressed concerns that data to be entered in NSLDS will be erroneous, thereby compromising its reliability.[18] Further, in our June 1994 report, we identified data quality problems with the guaranty agencies' data submissions to the Department. Examples of student loan data inaccuracies we reported in 1994 are described below:[19]

- For 35 percent of the 662 students we randomly tested and found in the Department's annual FFELP database of student loan data, guaranty agencies had submitted inaccurate information to the Department. For example, 229 of the 662 had incorrect amounts reported in the data field

[18]GAO/AIMD-93-20, Mar. 16, 1993.

[19]GAO/AIMD-94-131, June 30, 1994.

for "claims principal paid to lender." Twenty-two of these 229 cases had zero recorded in that data field, even though the Department had paid a default claim. These data are key factors in determining the costs of outstanding guaranteed loans.

- The Department's reviews of 33 guaranty agencies between March 1992 and January 1993 identified similar problems with data accuracy. As noted in our audit of fiscal year 1992 financial statements, the Department found that the "date-entered-repayment" data field was incorrect for all 130 files it reviewed at one of the largest guaranty agencies. The Department also found discrepancies in the "date-entered-repayment" data field at 25 other guaranty agencies. In addition, discrepancies were found in another key data field, "enrollment-status-code," at 27 of the 33 guaranty agencies reviewed.

Since our 1993 report, the Department has been undertaking a number of measures to try to make long-term improvements in the quality of the data obtained from guaranty agencies. These measures include (1) screening data that guaranty agencies and lenders send to NSLDS to ensure that they are in a consistent format and (2) tracking errors to the data field after a guaranty agency's submission is entered into NSLDS. It should be noted, however, that while these measures may screen out obvious errors and inconsistences, they will not ensure that the data are valid and accurate.

In addition to the measures discussed above, a number of other activities were performed before NSLDS implementation to help improve data quality. For example, beginning in 1991, the Department (1) conducted data quality reviews of each guaranty agency's database and (2) identified specific data problems and the corrections needed and then reported them to the guaranty agencies for resolution.

The Department remains confident that NSLDS will overcome the concerns that we have raised. But it is too early to determine the effectiveness of the Department's efforts because the Department has not completed implementation of NSLDS.

An important factor to the success of NSLDS is how guaranty agencies implement their systems to provide accurate and timely student loan data to the Department. This enhancement to data quality information will be required at a time when the guaranty agencies' revenue base may be declining as the Department is phasing in FDSLP.

Department Efforts to Strengthen System Controls

To reduce the likelihood that (1) loans will be made to students who are ineligible because they had previously defaulted on their student loans and (2) students will receive grants over statutory limits, the Department has strengthened controls in its student financial aid systems. These changes include computer matches to identify students who defaulted and edits to identify overpayments.

Computer Matches to Identify Defaulters

In January 1991, the Department implemented the Title IV Default Match. This system matches a file containing students' federal financial aid applications against a file containing names of students who have defaulted on student loans that have been assigned to the Department for collection.

In response to an Office of Inspector General (OIG) recommendation, in July 1992 the Department expanded its computer matching. Through the Guaranty Agency Default Match, student aid applicant records are matched against an FFELP database containing names of students who defaulted on student loans held by guaranty agencies. Preventing ineligible students from receiving FFELP loans or Pell grants—abuses that the two computer matches were designed to prevent—should reduce program costs $300 million annually, OIG reported.

From our analyses of data in the FFELP database, ineligible students appeared to continue to receive loans after the data matches were implemented. Specifically, according to the Department's data, the number of loans made to ineligible students increased from 10,450 in fiscal year 1990 (which was before the computer matches) to 12,134 in fiscal year 1993 (after both matches were implemented). The amount guaranteed on these loans also increased, from about $24 million in fiscal year 1990 to over $33 million in fiscal year 1993. As shown in table 3, for fiscal years 1989 through 1993, the number and amount of loans made to ineligible students increased each year, despite the implementation of the data matches.

Table 3: Increase in the Number and Amount of Loans to Ineligible Students

Fiscal year[a]	Number of loans[b]	Amount of loans
1993	12,134	$33,329,992
1992	11,833	29,496,011
1991	11,813	27,541,807
1990	10,450	24,012,225
1989	9,869	23,651,901

[a]The Department began using the Guaranty Agency Default Match in July 1992 and the Title IV Default Match in January 1991.

[b]The total number of loans guaranteed for each year was 5.6 million in fiscal year 1993, 5.1 million in 1992, 4.8 million in 1991, 4.5 million in 1990, and 4.7 million in 1989.

According to a Department official, the usefulness of the FFELP database for the computer matches is limited because the data may not be current. Although guaranty agencies reported loan data annually, some data were as much as 18 months old when matches occurred; therefore, students could have been provided aid before their previous loan defaults were identified. As we stated earlier, this timeliness issue is not expected to exist when NSLDS, if implemented properly, is fully operational. NSLDS is to provide on-line access to student loan data, which will be updated monthly, as opposed to the annual updates in the FFELP database.

CPS performs these two data matches during the application process. If the student defaulted on a loan or received a grant or loan overpayment, CPS will print a comment on the student's SAR. The student is then responsible for resolving the matter with (1) the school or guaranty agency, if the student was identified during the Guaranty Agency Default Match, or (2) the Department, if the student was identified during the Title IV Default Match.

The two matches are limited because they only identify students who previously defaulted. The school is responsible for ensuring that financial aid is not awarded to ineligible students. According to Department officials, NSLDS, as currently being implemented, will only identify ineligible students, it will not prevent them from receiving aid. Even with NSLDS, the school is still responsible for ensuring compliance.

Department officials confirmed that for the 1996 award year NSLDS will only identify ineligible students and will not prevent them from receiving aid. For the 1997 award year, however, officials state that the Department is considering a change to NSLDS that would require guaranty agencies to

update NSLDS to indicate that a student has made satisfactory arrangements for repayment before a student can receive additional aid.

We found that ineligible students received 12,134 loans in fiscal year 1993. They had already defaulted on 9,614 of their loans as of September 30, 1992. Of these loans,

- 558 (6 percent) contained a loan status code that would have required the student to reconcile the matter with the Department before he or she received any additional loans and
- 9,055 (94 percent) contained a loan status code that would have required the student to reconcile the matter with the school or guaranty agency or both.

We brought these findings to the attention of OIG officials. They were concerned that the matches did not prevent subsequent loans from being made to ineligible students. They agreed to determine if (1) the data matches were failing to identify subsequent loans to ineligible students, and (2) ineligible students received the monies.

Edits to Identify Overpayments

Beginning in January 1991, the Department, through CPS, added edits to student data to identify Pell grant overpayments. For example, a student with a Pell grant overpayment who subsequently submits a student aid application will be informed (1) that the application cannot be processed because of the overpayment and (2) that he or she is ineligible for additional federal aid until the full amount owed is repaid. For award years 1993 and 1994, the Department began informing schools of the identity of students who received Pell grant overpayments. The schools are now researching and resolving the potential overpayments as well as returning certifications to the Department for resolution.

Further, for award years 1994 and 1995, the Department implemented an edit in PGRFMS designed to identify students receiving more Pell grant funds than are allowed by law. If an overpayment is identified, the student will not be able to obtain another Pell grant until the overpayment is resolved. This check should enable the Department to prevent students from receiving (1) Pell grant funds in excess of what they are entitled to and (2) concurrent grants at two or more schools, but only if the total amount they receive exceeds the statutory limit for that year. However, this check will not identify those students concurrently attending two or more schools and receiving funds at or under the authorized grant limit for the award year.

Expanding Criteria for Program Reviews

The major strategy of IPOS is to target more program reviews of schools with (1) significant increases in loan and grant volume and (2) high default rates for student loans. IPOS is responsible for

- managing the oversight of approximately 8,500 domestic and foreign postsecondary schools, which includes certifying that the schools are administratively capable and financially responsible to properly handle program funds;
- verifying that, as part of determining that schools are eligible and certified to participate in federal student financial aid programs, accrediting organizations have determined that schools allowed to participate in federal programs have been properly approved and have met program requirements;
- contracting with State Postsecondary Review Entities (SPRE) to review schools for participation in federal financial aid programs;
- approving organizations that accredit schools and overseeing systems and controls for monitoring school compliance; and
- processing compliance and financial audits for schools participating in the programs.

Furthermore, in part as a result of the Permanent Subcommittee on Investigations' October 1993 hearing and recommendations in a 1993 OIG audit report,[20] IPOS revised and expanded its criteria for selecting schools for program reviews. For fiscal year 1993 program reviews, the Department had 8 criteria for identifying schools for review. The number of criteria increased to 25 beginning in fiscal year 1994. Examples of IPOS' review criteria include reviewing schools with

- 10 or more students receiving more than one Pell grant per payment period (if the number of students exceeds 2 percent or more of the school's Pell recipients) during the most recently completed award year,
- 10 or more students receiving Pell grants for more than 6 years (if the number of students exceeds 2 percent of Pell recipients), and
- a significant increase in FFELP loans (30 percent or greater) and loan volume of $500,000 and greater.

Even with the increase in the number of selection criteria for program reviews, the Department continues to lack (1) sufficient monitoring or examination of the amount of federal aid awarded to individual students and (2) reasonable assurance that no federal aid will be given to ineligible

[20]Report on the Effectiveness of the Regional Institutional Review Branches' Monitoring of Institutions Participating in the Student Financial Assistance Programs, Audit Control Number 05-20075, U.S. Department of Education. Washington, D.C.: 1993.

students. The Department relies on IPOS review findings to identify patterns of noncompliance or abuse, which are then used to target and conduct subsequent reviews. The Department's primary control mechanism is to rely on individual schools to verify students' eligibility.

In an effort to improve data sharing, IPOS formed a task force to develop a system that allows program reviewers, before undertaking a school review, to (1) access data from OPE's systems and (2) obtain the most current information on the federal funds received by a school and its students. Because most of these IPOS initiatives were recently implemented, it is too soon for us to determine what effect they may have on improving compliance with federal requirements for the Department's student financial aid programs.

Conclusions

FFELP and the Pell Grant Program, as the largest government programs for student financial aid, provide money that is vital to many students' education. According to data in these programs' data systems, the vast majority of aid is awarded in accordance with federal requirements. But in some instances, these systems have apparently not been used effectively to enforce compliance with federal requirements in administering student loan or grant programs.

Over the past few years, the Department has initiated several improvements that have strengthened program controls and systems used in administering its student financial aid programs, while minimizing loan defaults and program abuse. Although we believe that these efforts show a commitment by the Department to improve its management of the programs, program weaknesses still exist. For example, data matches have not effectively prevented ineligible students from getting additional aid, according to the Department's data. Instead, the matches are aimed only at identifying these students. Further, according to Department officials, NSLDS, as currently being implemented, will also only identify students, it will not prevent them from receiving aid. The problems that we identified have been long-standing and are likely to continue unless the Department takes further action.

The Department's reliance on schools to ensure compliance with program requirements also needs to be strengthened. While recognizing its need to rely on schools as the first line of enforcement for federal requirements, the Department must better use its student aid data to validate schools' performance.

Recommendation

We recommend that the Secretary of Education take actions to improve the accuracy and completeness of student financial aid data, such as continuing to screen data entered into NSLDS to ensure that they are in a consistent format, and testing the accuracy and validity of data in NSLDS. Further, we recommend that the Secretary analyze student aid data more closely to identify patterns of noncompliance with federal requirements, such as following up on students identified as ineligible in the data matches, and take appropriate corrective actions.

Agency Comments and Our Evaluation

On June 8, 1995, the Department of Education provided us written comments on a draft of our report. (See app. V.) The Department did not agree with our recommendations regarding the accuracy and completeness of its student financial aid data and its use of these data to identify patterns of noncompliance with federal requirements. The Department believes that (1) the implementation of NSLDS is a major milestone toward improving the accuracy and completeness of its student financial aid data and (2) NSLDS, along with the Postsecondary Education Participants System (PEPS), should allow it to use quality data to operate better data systems and enhance its ability to identify patterns of noncompliance in student financial aid programs.

We agree that properly implementing these systems could help the Department accomplish these objectives. However, these systems are just becoming fully operational. Furthermore, the success of NSLDS is dependent on the accuracy and validity of the data it maintains. Therefore, because whether NSLDS and PEPS will increase the accuracy and completeness of student financial aid data and, thus, enhance the Department's ability to identify patterns of noncompliance cannot be known for some time, we believe that our recommendations are still valid.

The Department raised concerns about the accuracy of the data we used in our analyses, the 10-year time period covered by our study, and the adequacy of coverage we gave to the actions the Department initiated to improve the problems that exist in its student financial aid systems. We recognized when developing our study methodology that some of the Department's data were inaccurate and incomplete, but one aspect of our work was to evaluate the data that the Department had available and was using in operating FFELP and the Pell Grant Program. We selected the 10-year period for our analyses to compensate for possible 1 year program abnormalities and purposely did not select samples that would project our findings to imply that problems may have been more widespread than we

identified. We also provide extensive coverage of the Department's corrective actions, and evaluated these efforts to the extent that we could, throughout this report.

The Department also raised concerns about the materiality of our findings when compared with the volume of aid provided to students. We recognize that the Department has provided approximately 32 million loans to borrowers during fiscal years 1982 through 1992, and over 18 million grants to students during award years 1989 through 1993. Although the problems we discuss may not be significant in comparison to the total number of loans and grants, our findings, which are based on the Department's data, illustrate that hundreds of millions of dollars may have been awarded or loaned to students who may have been ineligible for any federal student aid.

As agreed with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 7 days from the date of this letter. At that time, we will send copies to the Secretary of Education, appropriate congressional committees, and other interested parties. We also will make copies available to others on request.

The work for this report was carried out under the direction of Joseph J. Eglin, Jr., Assistant Director, Education and Employment Issues, who can be reached on (202) 512-7009 if you or your staff have any questions. Major contributors to this report are listed in appendix VI.

Sincerely yours,

Cornelia M. Blanchette

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Associate Director, Education and
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Abbreviations

COA	cost of attendance
CPS	central processing system
EFC	expected family contribution
FAFSA	Free Application for Federal Student Aid
FDSLP	Federal Direct Student Loan Program
FFELP	Federal Family Education Loan Program
HEA	Higher Education Act
IPOS	Institutional Participation and Oversight Services
NSLDS	National Student Loan Data System
OIG	Office of Inspector General
OMB	Office of Management and Budget
OPE	Office of Postsecondary Education
PEPS	Postsecondary Education Participants System
PGRFMS	Pell Grant Recipient and Financial Management System
SAR	student aid report
SPRE	State Postsecondary Review Entity
USAF	United States Aid Fund

Scope and Methodology

To achieve our objectives, we reviewed documentation related to the Department's FFELP student loan database and PGRFMS. We relied extensively on computer-processed data contained in these systems. Our review of these data showed problems (for example, unreliable data) that cast doubt on the systems' validity. However, when these data are viewed in context with other available evidence, we believe the opinions, conclusions, and recommendations in this report are valid.

We reviewed our prior reports, those of the Department's OIG, and Department reports that identified deficiencies in its information systems. We also reviewed the Department's 1993 Federal Managers' Financial Integrity Act report. We analyzed FFELP loan and Pell grant records to identify potential abuses, such as ineligible students obtaining federal financial student aid.

We did our review from December 1993 through April 1995 in accordance with generally accepted government auditing standards. We carried out our work at the Department of Education's headquarters in Washington, D.C.

The following is our methodology for identifying abuse in FFELP and the Pell Grant Program.

Identifying FFELP Abuses

To identify ineligible FFELP students who may have obtained subsequent loans, we obtained and analyzed data from the Department's fiscal year 1993 computerized database for FFELP loans. This database is a cumulative record of the active loans guaranteed by each guaranty agency since the inception of the program—November 1965. The Department requires guaranty agencies to update the database annually. We used the database as of September 30, 1993, because it contained the latest information available.

Ineligible FFELP Students

The Department directed guaranty agencies to classify FFELP loan students who have defaulted on their loans as either (1) defaulted, unresolved; (2) defaulted, written off or compromised; (3) defaulted, paid in full; or (4) defaulted, in repayment. Each one of these classifications is identified by a loan status code, such as DF for defaulted, unresolved. Because federal regulations do not clearly state whether students whose defaulted loans were classified as written off or compromised are ineligible to obtain new loans, and because students who have repaid or are repaying their

defaulted loans are generally eligible to obtain new loans, we excluded these loans from our analyses on defaulted FFELP loan students. As a result, our analyses only included those students whose loans were classified as defaulted, unresolved. Guaranty agencies classify a loan as defaulted, unresolved if the guaranty agency has paid a default claim to the lender and no arrangement has been made with the student to repay the defaulted amount to the guaranty agency.

FFELP students classified with the following loan statuses are also ineligible to receive additional aid: (1) permanently assigned to the Department[21] and (2) death. We included these in our ineligible category. Our analysis included data on students who became ineligible for additional loans between 1982 and 1993. The Department does not change the loan status in the database for those loans that have been permanently assigned to the Department but have been paid off by the defaulter. The Department maintains these updated records in a separate debt collection system.

Ineligible FFELP Students Obtained Loans

After we built our database of ineligible students, we used students' social security numbers to identify other FFELP loans these students may have also obtained. Then, using the loan guaranteed dates for those other loans, we identified all students who had obtained subsequent loans after they were declared in default or classified as dead. From this process we identified 43,519 students who may have obtained 58,105 new loans. Already, 20,210 of these students, who became ineligible after receiving their first loan, have obtained and defaulted on or died while in possession of their subsequent loans.

Problems Related to Questionable Student Loan Data

The number of students who defaulted and obtained new loans could be different than indicated by the Department's data. According to the data, for 6,416 records, the loan status date fields contained inadequate data. Specifically, the Department's data showed that for 5,796 records, the date fields were in error because they contained zeros, and 620 had dates that were before the enactment of HEA in 1965. Therefore, we could not determine whether the loans were obtained before or after the students became ineligible.

In June 1994, we reported that (1) the FFELP database consists of data that are at least 6 to 9 months old and are only updated on an annual basis,

[21]Guaranty agencies classify loans as permanently assigned to the Department if the loan has defaulted and been permanently assigned to the Department.

(2) guaranty agencies made little effort to verify the accuracy of FFELP data before they were submitted to the Department, and (3) some of the data were clearly wrong (some data indicated that students defaulted before the date that their loans were made and other data showed that loans were made before initiation of FFELP in 1965).[22] As a result of data quality problems identified during our audit, we were unable to express an opinion on whether the fiscal year 1993 Statements of (1) Financial Position, (2) Operations and Changes in Net Position, and (3) Budgetary Resources and Actual Expenses were fairly stated.

Identifying Pell Grant Abuse

To identify the number of students who received (1) Pell grants in excess of maximum award amounts, (2) two or more concurrent grants from more than one school, and (3) grants after defaulting on their loans, we analyzed PGRFMS data.

Students Reported by Two or More Schools With Concurrent Enrollment Dates

For award years 1989 through 1993, we analyzed PGRFMS records with the following data fields: (1) social security number; (2) reporting campus; (3) attended campus; (4) assumed enrollment date; (5) assumed amount paid; and (6) assumed remaining amount to be paid. "Assumed" in a PGRFMS record indicates that the data in this field have been accepted by the Department as the final total for that field in the system. The assumed amount paid plus the assumed remaining amount to be paid is equal to the total amount paid to a student for that year.

To determine the number of students who concurrently received grants from two or more schools, we matched a student's social security number, reporting campus, and enrollment date to all the records in the PGRFMS universe. If a hit occurred, that is, if a match occurred between students with the same social security number and enrollment date but different reporting campuses, we considered this to be an instance where a student concurrently received grants from two or more schools.

Students Potentially Received Grants in Excess of Maximum Amounts

To determine the number of students who received grants in excess of maximum amounts, we analyzed PGRFMS data from award years 1989 through 1993. The fields we used to identify the students who had received Pell grants in excess of maximum amounts included: (1) social security number, (2) reporting campus, (3) attended campus, (4) assumed amount paid, and (5) assumed remaining amount to be paid.

[22]GAO/AIMD-94-131, June 30, 1994.

We selected only those cases that had total amount paid greater than the authorized amount for each award year. We found no cases of an excess payment having been distributed to a student at a single school. In other words, students who received a payment over the maximum amount attended two or more schools in that award year. The Department's PGRFMS contained edits to ensure that overpayments did not occur at a single school.

Students May Have Received Grants After Defaulting on a Loan

We also matched PGRFMS data against FFELP loan data from award years 1983 through 1992. To determine those students who received one or more Pell grants after they had defaulted on a loan, we used the following data fields from PGRFMS: (1) social security number, (2) enrollment date, (3) reporting campus, (4) attended campus, (5) assumed amount paid, and (6) assumed remaining amount to be paid.

The student loan data used in our analyses were made up of all students who were classified as having loans that were defaulted, unresolved, or permanently assigned to the Department, and loans for students who were dead. We used the following student loan fields to conduct our matches: (1) social security number, (2) loan status date, (3) loan status code, and (4) net amount guaranteed.

Using a student's social security number, we compared the PGRFMS data to the FFELP data and if a student's Pell enrollment date was after the loan status date of the student's defaulted loan we considered this a successful match. Because disbursement dates for each Pell grant are not recorded by the Department, officials told us that we should use enrollment dates as the disbursement date.

Process for Applying for Federal Student Financial Aid

1. The student (and parents of a dependent student) submits a FAFSA (or Renewal FAFSA) to an application processor.

2. The application processor enters data from the application and transmits the data to CPS.

3. CPS calculates the expected family contribution (EFC) figure and performs database matches and edits (to ensure that needed information is included) before transmitting the data back to the application processor.

4. The application processor prints the results of EFC calculation on an output document called SAR (which contains the results of the database matches) and mails it to the student.

5. The student takes or mails SAR to the school.

6. The school requests any necessary supporting documents needed to verify application data, determine the student's eligibility, or both.

7. The school establishes the student's COA and determines the student's need.

8. The school determines the student's eligibility for the different programs and constructs an award package of available types of aid.

9. The student either accepts the aid or declines all or part of the aid package.

10. Funds are disbursed to the student according to the student financial aid program requirements.

Student Financial Aid Systems

Central Processing System	Supports title IV applications and the determination of Pell grant eligibility, matches other databases for applicant eligibility, makes corrections to the records, and produces statistical analysis tables, student data rosters, and tapes for schools and state agencies.
Stafford Loan Tape Dump	Referred to as the FFELP database in this report (a subsystem of the Guaranty Agency System) this system processed individual loan status and loan history information annually from tapes created by guaranty agencies. The Department used this information to consolidate loan data and monitor default rates of lenders, schools, and guaranty agencies.
Multiple Data Entry Systems	Collect student applications and determine eligibility for title IV programs in accordance with legislative stipulation and transfer student loan data to CPS.
National Student Loan Data System	Contains information regarding loans made, insured, or guaranteed under title IV, and selected Pell grant information. Its purpose is to (1) ensure accurate and complete data on student loan indebtedness and institutional lending practices are available, (2) screen applications to identify prior loan defaults and grant overawards, (3) provide a database to research and identify trends and patterns, (4) support audits and program reviews, and (5) calculate default rates.
Pell Grant Recipient and Financial Management System	Receives, evaluates, and processes student payment data as the basis for obligations to schools. This system processes about 7 million transactions annually.
Postsecondary Education Participants System	Formerly known as the Institutional Data System, this system provides demographic and monitoring information on the universe of schools and lending institutions and funding information for student aid programs.

Guaranty Agencies That Guaranteed Loans to Ineligible Students Who Had Already Defaulted on Subsequent Loans (Fiscal Years 1982-92)

Guaranty agency	Amount guaranteed	Loans	Remaining amount due[a]
Higher Education Assistance Foundation, Minnesota[b]	$11,479,155	5,036	$15,699,783
Puerto Rico Higher Education Assistance Corporation[c]	10,665,845	4,841	10,140,877
California Student Aid Commission	4,696,200	1,918	4,684,511
Higher Education Assistance Foundation, Kansas[b]	3,430,451	1,475	4,591,466
United States Aid Fund, Incorporated	4,152,914	1,980	3,934,626
Nebraska Student Loan Program	3,700,172	1,639	3,519,471
Texas Guaranteed Student Loan Corporation	3,043,971	1,391	3,010,862
New York State Higher Education Services	2,805,466	1,209	2,650,149
Pennsylvania Higher Education Assistance Agency	2,188,308	905	2,127,834
Great Lakes Higher Education Corporation	2,328,798	974	1,935,916
Illinois Student Assistance Commission	1,385,361	610	1,393,650
Massachusetts Higher Education Assistance[d]	1,184,151	470	1,176,327
Higher Education Assistance, District of Columbia[b]	795,398	336	1,140,097
Connecticut Student Loan Foundation	1,210,832	553	1,005,057
Virginia State Education Assistance Authority	968,708	431	986,446
Higher Education Assistance Foundation, West Virginia[b]	608,589	271	810,238
Michigan Higher Education Assistance Authority	670,597	299	672,303
Colorado Guaranty Student Loan Program	658,663	290	656,374
Coordinating Board for Higher Education, Missouri	631,408	276	609,124
Tennessee Student Assistance Corporation	585,635	258	600,326
Governor's Special Commission of Education	664,185	308	578,768
Ohio Student Loan Commission	532,791	236	544,076
Maryland Higher Education Loan Services	541,476	224	532,636
Arizona Educational Loan Program[e]	542,087	248	523,502
Oklahoma Guaranteed Student Loan Program	481,453	251	486,876
New Jersey Higher Education Assistance Authority	393,944	158	398,479
Mississippi Guaranty Student Loan Agency[f]	266,965	127	267,380
State Student Assistance Commission of Indiana	242,800	116	249,566
Higher Education Assistance Foundation, Nebraska[b]	171,851	84	244,407
Northwest Education Loan Association	235,858	98	206,687

(continued)

Guaranty agency	Amount guaranteed	Loans	Remaining amount due[a]
Iowa College Student Aid Commission	179,047	78	187,050
Georgia Higher Education Assistance	191,638	91	173,349
Utah Higher Education Assistance	192,053	96	171,936
Alabama Commission on Higher Education	126,749	62	130,191
Kentucky Higher Education Assistance Authority	112,991	62	120,484
Student Loan Guaranty Foundation, Arkansas	114,526	66	112,831
Pacific Islands Educational Loan Program	88,109	36	88,733
Oregon State Scholarship Commission	63,732	27	74,508
North Dakota Guaranty Student Loan Program	38,835	23	45,533
Guaranteed Student Loan Program, Montana	40,773	20	43,396
South Dakota Education Assistance Corporation	39,962	22	42,183
Vermont Student Assistance Corporation	36,441	18	36,681
NORTHSTAR Guaranty Incorporated, Minnesota	30,977	13	33,765
New Mexico Student Loan Guaranty Corporation	29,856	15	29,004
Rhode Island Higher Education Assistance Authority	26,226	12	26,928
Student Loan Fund of Idaho, Incorporated[g]	28,574	12	25,868
Higher Education Assistance Foundation[b]	13,011	7	19,197
New Hampshire Higher Education Assistance	13,950	5	14,254
South Carolina Loan Corporation	12,775	6	12,629
North Carolina State Education Assistance Authority	11,849	4	10,192
Finance Authority of Maine	9,256	4	10,049
Florida Student Financial Assistance Foundation	994,076	422	[h]

[a]Includes interest and principal.

[b]Agency no longer exists.

[c]Now part of Great Lakes Higher Education Corporation in Madison, Wisconsin.

[d]Now American Student Assistance.

[e]The United States Aid Fund Incorporated (USAF) in Indianapolis, Indiana, is now the designated guaranty agency.

[f]Replaced by USAF.

[g]Now part of Northwest Education Loan Association.

[h]The information was not available in the FFELP database.

Comments From the Department of Education

Note: GAO comments supplementing those in the report text appear at the end of this appendix.

UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF POSTSECONDARY EDUCATION

THE ASSISTANT SECRETARY

Mr. Joseph Eglin
U.S. General Accounting Office
Washington, D.C. 20548

JUN 8 1995

Dear Mr. Eglin:

This letter responds to your request for comments on the General Accounting Office draft report entitled, "Student Financial Aid--Loan and Grant Data Indicate Millions Inappropriately Awarded to Students," dated June 1995 (GAO/HEHS-95-89). Although the report states that a major objective of the review was to evaluate the Department's efforts to improve its data systems for the Federal Pell Grant and Federal Family Education Loan (FFEL) Programs, we do not believe that the draft report represents an accurate, fair, or balanced picture of the Department's improvement efforts. Our concerns relate to the following areas:

- The report appears to be primarily a compilation of problems identified in earlier reports that have already been corrected by the Department. Most of the data relied upon is old. Rather than use data from the most recent award years, GAO based its analysis on ten years of data from 1982 to 1992. Consequently, inaccurate conclusions about current conditions are drawn from the results of the data analyses performed. As a result, the reader is erroneously led to believe that there is a current egregious non-compliance problem.

- The amount of potentially ineligible awards or loans identified in the audit is not statistically significant (generally less than .2 percent). Although GAO acknowledges that the amount of potentially ineligible loans is small, GAO implies that a significant abuse is currently occurring. Because of the changes in the legislation that were provided in the Higher Education Act (HEA) Amendments of 1992 and subsequent Student Financial Assistance (SFA) reform legislation, we do not believe this is the case. Although we acknowledge that improvements were needed in certain areas as identified by GAO, we believe that we have responded appropriately to GAO's prior recommendations and have instituted improved controls such as the matching of new student aid applications with loan default records.

- Criticism of the Department's reliance on the schools to verify student eligibility is misguided. Historically the Department has experienced success with this partnership approach. The report does not provide sufficient evidentiary matter to revise this approach or even a recognition that substantial additional staff or contracting dollars would be needed if the Department did not rely on the schools to verify certain information. For example, in award year 1993-94, our matching program identified

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over 200,000 students who may have been ineligible for additional aid. Prior to receiving aid, these students had to provide schools with documentation to demonstrate that they had resolved their defaulted loan. Had the Department been required to verify this documentation, significant costs would have been incurred.

- All of the "ineligible" students cited by GAO are based on unverified data. GAO presents the information as actual overawards instead of potential overawards. However, because GAO did not verify with the institutions or the guaranty agencies (GAs) whether the student was actually eligible for SFA, or whether or not the student actually received grants or loans, GAO's findings should be clearly portrayed as potential findings.

Student Financial Aid Improvement Efforts

One of the stated objectives of the GAO review (Page 2) was to assess the improvements that the Department has planned or made to its student financial aid programs and systems. However, we find little in the report that addresses this issue. The Department is engaged in a proactive effort to improve institutional gatekeeping and financial management for the student aid programs. Some of these efforts are as follows:

See comment 1.

- The 1992 HEA Amendments included new provisions for a Program Integrity Triad--the Department, accrediting agencies and the State Postsecondary Review Program--to improve the quality and integrity of the institutions participating in the SFA programs. The Triad provides for complementary and independent oversight of participating institutions.

See comment 1.

- The 1992 Amendments require the Department to recertify all institutions every four years. The 1992 amendments also gave the Department new authority to provisionally certify institutions when there are indications of risk.

See comment 1.

- All institutions are now required to submit annual financial and compliance audits. Previously, schools filed compliance audits biennially and financial audits only upon request.

See comment 2.

- The Department is expanding its quality assurance program to emphasize error prevention.

- We are also continuously improving our data systems and controls, as evidenced by the implementation of the National Student Loan Data System (NSLDS), and improved reporting requirements and edit checks in the Pell program. The National Student Loan Data System represents a major improvement in the administration of the SFA programs. This is the first comprehensive data base of student level data where data is integrated across years and programs. This system provides numerous

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opportunities for controls and data analyses that were not possible with the annual tape exchange process. We are also in the process of developing requirements for a fully integrated SFA delivery system that will have common data elements and procedures across programs and that will streamline electronic communications between ED and the schools. After these requirements are completed in early 1996, we will begin converting each of the SFA systems as contracts are recompeted.

Page 3--Results in Brief. The wording of the first two sentences is confusing. The second sentence is unrelated to the first. The presentation of the FFELP loan data is misleading. The report states that over a 10-year period (1982-1992), 43,519 ineligible students received $138 million. We believe this time period is biased to produce poor results. In the case of the 43,519 students who may have been ineligible for their loans, this represents 0.18 percent of the universe. In the case of the 2,111 students that may have received loans in excess of their cost-of-attendance, this represents 0.009 percent of the 23.4 million records for which this data was available--a remarkably low error rate. The Pell Grant information is also misleading because it presents potential overawards as actual overawards. Although our goal is zero tolerance, the overaward rate even if all students were ineligible is less than .2 percent.

See comment 3.

Page 4--Last sentence of first paragraph. We strongly disagree that relying on schools and guarantors to prevent ineligible students from obtaining financial aid contributes to student eligibility problems. The Department could not administer these programs in a cost effective manner without a strong partnership with the participating institutions. Schools are in the best position to verify student data because they deal face-to-face with students. Although it is true that a small percent of participants will engage in fraudulent activity, this is rare and we believe that the burden to schools and students and the annual costs to maintain a "fraudproof" system would far outweigh the benefit of such a system.

Although the Department does rely on program participants to help ensure that students are eligible for aid, the Department also has many procedures in place to deal with high risk schools. For example, schools are placed on reimbursement when we believe that Federal dollars are at risk. This enables ED staff to review documentation for student awards prior to payment. We have also included a control feature in the Direct Loan Program so that only schools that meet certain administrative capability standards can originate direct loans. Finally, as a result of our default reduction initiatives, fewer high risk schools participate in the programs than in prior years.

See comment 4.

Page 15--Students Received Loans Greater Than Their Cost of Attendance. Again, the data as presented are misleading. If only 2,111 students since 1982 received FFELP loans higher than their COA for a total of $2.4 million, this is a very small percentage of all loans disbursed--0.009 percent of loans for which COA was available. Further, our program reviews and audits over the past ten years have not shown this to be common occurrence. We have found that student costs change frequently. The additional cost and burden to

schools to report to us a student's revised COA whenever changes occur would greatly exceed the benefit to be gained. The Department believes its limited resources should be targeted on areas where abuse is more likely.

Page 18-19 reference--Pell grants in excess of award limits. The Pell grants discussed in this section are potentially in excess of award limits. Our experience has shown that these apparent overawards generally occur because of school delays in reporting award adjustments. Also, due to system limitations in prior years, some adjustments after the close of an award year were posted as a lump sum to school accounts rather than to student level records. Thus, to determine whether an actual overaward occurred, the data would have to be verified for each student.

For example, for the 1993-94 award year, we identified 11,435 students as potentially having Pell grant overawards totaling $9.2 million. The Department's resolution efforts to date have reduced the number potential overawards from 11,435 to 7,443 students and from $9.2 million to $5.8 million. The 3,992 student records totaling $3.4 million resolved to date were the result of reporting delays and not actual Pell grant overawards. We anticipate that final resolution of this award year will result in further reductions in the number of "potential Pell grant overawards." To date, the amount of funds potentially overawarded represent .001 of the funding of $5.7 billion for that award year.

We have modified our system edits, starting with the 1993-94 award year, to ensure that students do not receive Pell grants in excess of award limits and to record all adjustments at the student level. We are also implementing further improvements to reporting procedures.

See comment 5.

Page 19--Middle Page. This paragraph should be clarified. A payment that would exceed the scheduled award is "blocked" and the school cannot receive funds for the award. Thus the impact of this edit is known--an overaward cannot occur. The only way that the second school can get reimbursed is if the first school reports a downward adjustment.

Page 21--First full paragraph. We believe program reviews and audits do help prevent program abuse by providing a deterrent to schools.

Page 21--Second Paragraph. Although information sharing can always be improved, we do not agree that SFAP units do not routinely share information. In addition to daily interaction of staff in the various Service areas, SFAP managers meet weekly to share information and discuss program issues on a formal basis. The NSLDS and Pell systems are currently the single source of student level data on student aid grants and loans. Accounting personnel, program reviewers and policy analysts all have access to and routinely use data in these systems.

See comment 6

Page 5--Mr. Joseph Eglin

Page 29-30--Ineligible students appeared to continue to receive awards. GAO states that the number of loans made to ineligible students increased after the computer matches were implemented. We do not agree with GAO's methodology for testing the effectiveness of the computer match. GAO did not test student applications that were actually flagged by the matching program beginning in July 1992. Rather, GAO matched defaulted loan data from the FY 1992 tape dump with loan guarantees in Fiscal Year 1993. The FY 1992 tape dump, however, was not available for use in the matching process until June 1993.

Students with defaulted loans may still be eligible if they have made satisfactory arrangements with the guarantor to repay. GAO did not determine whether this was the case. We compared a test sample of 30 of the 12,134 loans identified by GAO as ineligible in Fiscal Year 1993 to the status of the loan per the NSLDS as of June 1995. In 19 of the 30 cases, the current loan code in NSLDS indicates that the student is eligible for subsequent loans. Thus, the matching process appears to be effective in getting students to resolve their defaulted loans and getting guaranty agencies to report those changes in student status to the Department. In addition, we believe that schools have a very strong incentive to ensure that students provide them with appropriate documentation because of the substantial liability risk to the school if the loan is found to be ineligible. We plan to do further analysis of GAO's statistics that would include matching GAO's data with NSLDS and possibly following-up at institutions and, if appropriate, guaranty agencies, regarding specific students' eligibility for loans and grants. In addition, we plan to use this analysis to assist us in targeting reviews at institutions and possibly guaranty agencies and lenders.

Page 31--Middle Paragraph. The statement that NSLDS will only identify ineligible students and not prevent them from receiving aid is true for the 1995-96 award year. For the 1996-97 award year, however, we are now considering a change to require the guaranty agency to update the NSLDS to indicate that a student has made satisfactory arrangements for repayment before a student will be made eligible for additional student aid. This is the type of control that may be made possible by NSLDS but that was not feasible under the GA tape exchange process.

Page 36--Recommendation 1: Ensure that student aid data are accurate and as complete as practical. We believe that the implementation of NSLDS is a major milestone toward improving the accuracy and completeness of data. In addition, our plans for an integrated student financial assistance delivery system will go far to ensure that our data is complete.

Page 6--Mr. Joseph Eglin

Page 36--Recommendation 2: Analyze student aid data more closely to identify patterns of noncompliance in student financial aid programs, and take appropriate corrective actions. With the development of the PEPS and NSLDS systems, our ability to identify patterns of noncompliance in student financial aid programs in a timely manner has been greatly enhanced. We have developed management information reports that should provide us with the ability to target our resources in a more strategic and effective manner. We will continue to develop our ability to use these systems and enhance our analytical capabilities, in order to effectively target our resources and take appropriate corrective actions.

Sincerely,

David A. Longanecker

The following are GAO's comments on the letter from the Department of Education dated June 8, 1995.

GAO Comments

1. We did not address these efforts in this report because they were not subject to our review, which primarily focused on the Department's student loan and grant data in its systems. We did, however, address these efforts in our 1995 high-risk report.[23]

2. We are aware of the Department's Quality Assurance Program and have obtained information from its office during our review. According to a Department official, the Department plans to expand the scope and size of the program and is in the process of recruiting additional institutions into the program, as well as including additional areas of the student financial aid program administration (such as institutional and program eligibility, general administrative and fiscal practices, and others). Because the Department is in the process of expanding its Quality Assurance Program, we did not have the opportunity to evaluate this effort.

3. We do not disagree that the Department should rely on schools and guaranty agencies to help prevent ineligible students from obtaining aid. Rather, we believe that the Department can use the data in its loan and grant systems to help ensure compliance, identify patterns of ineligible students receiving aid, and prevent abuses from occurring. We are not recommending a restructuring of how the Department relies on schools and guaranty agencies. We are, however, stating that the Department can complement its current procedures by better using its student aid data to validate compliance with federal requirements.

4. Federal requirements state that federal student financial aid must not exceed students' COA. We recognize that it was not mandatory for guaranty agencies to submit COA data to the FFELP database, although some agencies provided such data. According to Department officials, COA data are not a requirement in NSLDS. Because schools use COA data to determine the amount of aid students are eligible for, and the data are available, its use provides another tool for evaluation.

5. We did not analyze Pell grant data to determine if students received grants over their scheduled award amount. Scheduled awards are based upon several factors, such as the student's EFC and COA—information that is maintained at schools and was not readily available. Therefore, we

[23]GAO/HR-95-10, Feb. 1995.

analyzed the Department's Pell grant data to identify students who may have received Pell grants over the annual statutory limits. In this report, we state that the Department has checks in place to identify students who may have received overpayments.

6. The Department's analyses of the 30 students we identified as ineligible and receiving loans after the data matches were in place showed that 19 students were eligible in NSLDS as of June 1995—2 years after the last FFELP database was available. The students may be eligible now but, according to the Department's data, they were not eligible in fiscal year 1993, when they received additional loans.

Appendix VI

GAO Contacts and Staff Acknowledgments

The following team members contributed to this report: Paula N. Denman-Barnes, Evaluator-in-Charge; Scott M. Berger and Joel H. Marus, Evaluators; Edward H. Tuchman, Computer Scientist; Julian P. Klazkin, Senior Attorney; Ann McDermott, Publishing Advisor; and Laurel H. Rabin, Communications Analyst.

Related GAO Products

High Risk Series: Student Financial Aid Programs (GAO/HR-95-10, Feb. 95).

Financial Audit: Federal Family Education Loan Program's Financial Statements for Fiscal Years 1993 and 1992 (GAO/AIMD-94-131, June 30, 1994).

Student Loans: Millions Loaned Inappropriately to U.S. Nationals at Foreign Medical Schools (GAO/HEHS-94-28, Jan. 21, 1994).

Student Financial Aid Programs: Pell Grant Program Abuse (GAO/T-OSI-94-8, Oct. 27, 1993).

Financial Management: Education's Student Loan Program Controls Over Lenders Need Improvement (GAO/AIMD-93-33, Sept. 9, 1993).

Direct Student Loans: The Department of Education's Implementation of Direct Lending (GAO/HRD-93-26, June 10, 1993).

Financial Audit: Guaranteed Student Loan Program's Internal Controls and Structure Need Improvement (GAO/AFMD-93-20, Mar. 16, 1993).

Department of Education: Long-Standing Management Problems Hamper Reforms (GAO/HRD-93-47, May 28, 1993).

Department of Education: Management Commitment Needed to Improve Information Resources Management (GAO/IMTEC-92-17, Apr. 20, 1992).

Student Loans: Direct Loans Could Save Billions in First 5 Years With Proper Implementation (GAO/HRD-93-27, Nov. 25, 1992).

Stafford Student Loans: Millions of Dollars Awarded to Ineligible Borrowers (GAO/IMTEC-91-7, Dec. 12, 1990.)

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